

ANNUAL COMMUNITY ASSESSMENT REPORT

City and County of Honolulu Program Year 2016: July 1, 2016 to June 30, 2017

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Introduction

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990 require federal grant recipients receiving federal assistance under the Acts to submit an annual performance report disclosing the status of grant activities. The U.S. Department of Housing and Urban Development (HUD) is required by 24 CFR 91.525 to determine whether the grant recipient is in compliance with the statutes and has the continuing capacity to implement and administer the programs for which assistance is received. In accordance with 24 CFR 91.525, HUD's comments below and the cover letter above incorporate the Department's assessment of the City and County of Honolulu's (City's) Program Year (PY) 2016 performance.

In assessing the City's performance, HUD relied primarily upon the City's PY 2016 Consolidated Annual Performance and Evaluation Report (CAPER), technical assistance, on-site monitoring, and communications with the City's federal programs staff. During this period, the City generally met the intent of its HUD Community Planning and Development (CPD) programs which consists of the Community Development Block Grant (CDBG), Home Investment Partnerships (HOME), Emergency Solutions Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA) programs. However, HUD has serious concerns regarding the City's implementation of its CPD programs and its on-going capacity to manage the programs.

Significant Performance Conclusions

Overall, the City has had capacity issues with its management of its CPD programs which consists of the CDBG, HOME, ESG, and HOPWA programs as follows:

- The City failed the CDBG timeliness test on May 2, 2017 with a timeliness ratio of 2.59 taking into account the City's balance of CDBG program income and revolving loan funds. HUD is currently assessing the City's noncompliance with CDBG timely expenditure requirements for failing to achieve the CDBG 1.50 timeliness standard for two consecutive years and has not rendered a decision. Should the City fail to meet the 1.50 timeliness standard when the test is next conducted on May 2, 2018, the City may have its PY 2018 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant. The City's current timeliness ratio is 3.93 including CDBG program income and revolving loan funds. The City's current rate of CDBG expenditures puts the City at risk for failing the CDBG timeliness test on May 2, 2018 for a third consecutive year with an approximately \$18 million shortfall.
- The City failed to fully meet its 2012 HOME Program Expenditure requirement. The City was required to expend a cumulative total of \$2,367,981.11 by its program year deadline July 31, 2017. As a result of failing to meet the expenditure requirement, HUD deobligated the 2012 expenditure shortfall amount of \$2,367,981.11.
- The City has failed to expend \$90,713.72 in ESG PY 2015 funds. Although the deadline has passed, HUD allowed the City to expend its remaining PY 2015 ESG funds. The City needs to expend and drawdown its PY 2015 ESG funds by May 31, 2018. Should the City fail to expend and drawdown its remaining PY 2015 ESG funds by the deadline, HUD may deobligate the balance in PY 2015 ESG funds in IDIS on June 1, 2018.
- The City failed to expend \$7,257.99 in HOPWA PY 2014 funds. Although the deadline has passed, HUD allowed the grant to be extended to April 30, 2018 to spend the remaining grant balance of \$7,257.99. The original performance end date (deadline date) for this grant was July 31, 2017.
- The fiscal year 2016 audit by the HUD Office of the Inspector General (OIG) of the City's CDBG program found that the City did not administer its CDBG program in accordance with HUD requirements related to cost eligibility and procurement. The City has cleared six of the nine recommended actions and is continuing to work at clearing the remaining three recommended actions.

As a result of the City's recent history of unsatisfactory performance; lack of effective management systems in place to ensure program compliance; failure to timely resolve open findings; and concerns about the City's on-going capacity to manage its CPD funds; HUD has determined that the City is a high-risk grantee.

CPD Programs

CDBG

The City used CDBG funds to address affordable housing, homelessness, public services, public facilities, community development and economic development needs during PY 2016. During the program year, 100 percent of CDBG funds (excluding funds expended for administration and planning) were spent on activities that benefited low and moderate-income persons.

The City's Consolidated Plan describes the following high priority concerns that will be addressed through the CDBG program: housing and special needs housing, homelessness, community and economic development, and planning and administration. During the program year, the City expended \$6,686,141.62 CDBG funds on 25 projects. The City met or surpassed the following Consolidated Plan goals for PY 2016: to support the development of Neighborhood Revitalization Strategy Areas and provide microenterprise assistance; to provide services to victims of domestic violence; to renovate homeless shelters; and to improve public facilities.

The City failed the CDBG timeliness test on May 2, 2017 with a timeliness ratio of 2.59 taking into account the City's balance of CDBG program income and revolving loan funds. HUD is currently assessing the City's noncompliance with CDBG timely expenditure requirements for failing to achieve the CDBG 1.50 timeliness standard for two consecutive years and has not rendered a decision. Should the City fail to meet the 1.50 timeliness standard when the test is next conducted on May 2, 2018, the City may have its PY 2018 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant.

HUD reviewed the City's report of progress for the Wahiawa NRSA. The City has taken steps to offer enhanced flexibility in undertaking economic development, housing, and public service activities with its CDBG funds in communities with approved NRSAs. However, the City currently has only one funded NRSA project, the Wahiawa Community Based Development Organization (CBDO) NRSA Project. The City has now reprogrammed most if not all the funds from this CBDO.

The City has eight at risk CDBG activities. The City needs to complete the following at risk activities and bring them into national objective compliance: Kuwili Street Homeless Center, Gregory Housing Programs Housing and Supportive Services for Persons with HIV/AIDS, and Windward Spouse Abuse Shelter. The City needs to repay the CDBG program with non-federal funds for the failed acquisition of Kamoku Apartments and Vancouver Apartments. HUD also rejected three remediation plans. The City needs to complete the following CDBG at risk activities and bring them into national objective compliance immediately or repay the CDBG program with non-federal funds: Kahuku Village Conversion, Kulana Malama, and Family Promise of Hawaii – Support Services.

HOME

The City is expending its HOME funds toward projects that will assist low- and moderate-income persons. During the program year, the City expended \$2,397,537.45 HOME funds on homebuyer, development of rental housing and TBRA projects. The HOME Program regulation requires a HOME participating jurisdiction (PJ) to expend its annual allocation of HOME funds within 5 years of receiving its HOME grant. Compliance with this requirement is based on a review of the PJ's allocations and expenditures, as reported in the Integrated Disbursement and Information System (IDIS) at the time of its deadline. The City failed to fully meet its 2012 HOME Program Expenditure requirement. The City was required to expend a cumulative total of \$2,367,981.11 by its program year deadline July 31, 2017. As a result of failing to meet the expenditure requirement, HUD deobligated the 2012 expenditure shortfall amount of \$2,367,981.11

The City has one HOME Red Flag Indicator for allocation years not disbursed. The City is in the bottom 20 percent in the nation for HOME funds for percentage of funds disbursed. The City needs to expend and draw down \$945,911.74 in PY 2011 HOME funds before September 14, 2018 or the funds will be recaptured by the U.S. Treasury. The City needs to expend \$2,128,695.20 by November 30, 2018 to meet its 2013 HOME Program Expenditure requirement or HUD will deobligate these funds.

The City has one HOME Program trouble indicator for the percentage of completed CHDO disbursements to all CHDO reservations. The City is ranked in the bottom 33 percent in the nation for CHDO disbursements to all CHDO reservations. The City has a CHDO reservation shortfall of \$345,347, which the City needs to commit before October 31, 2018 or HUD will deobligate these funds. HUD strongly encourages the City to take steps to improve its timely commitment and expenditure of CHDO funds as poor performance in this area may result in the future loss of HOME funds.

The City has one HOME funded activity that is slow moving: Hui Kauhale Ewa Villages Area H. The project is complete, all housing units are occupied, and the nonprofit developer has submitted its final payment request to the City. However, internal disputes between the City Departments of Community Services (DCS) and Budget and Fiscal Services (BFS) regarding administration of this project have delayed the City's actions to close the project. As a result, if the City cannot resolve its internal disputes and closeout the project. The City may have to repay \$2,775,000 to the HOME program with nonfederal funds. HUD also identified one HOME activity funded with PY 2015 funds that does not have an executed written agreement, the Housing First Rental Assistance program. The City needs to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timelier manner may result in repayment of HOME funds.

ESG

The City supported several homeless shelters and providers during the program year. The City expended \$565,213.96 ESG funds and carried out seven activities funding homeless shelter operations, essential services, homeless prevention and rapid rehousing. The City met or surpassed the following Consolidated Plan goals to strengthen communities for PY 2016 to provide emergency rental and utility assistance for persons experiencing homelessness and for persons threatened with eviction.

ESG funds are required to be committed within 180 months and expended within 24 months of the grant award. The City has failed to expend \$90,713.72 in PY 2015 funds. HUD has advised the City of the need to expend and draw these ESG funds in prior year Annual Community Assessment reports. Although the deadline has passed, HUD allowed the City to expend its remaining PY 2015 ESG funds. The City needs to expend and drawdown its PY 2015 ESG funds by May 31, 2018. Should the City fail to expend and drawdown its remaining PY 2015 ESG funds by the deadline, HUD may deobligate the balance in PY 2015 ESG funds in IDIS on June 1, 2018. In addition, the City needs to expend and draw down \$440,332.50 in PY 2016 ESG funds by October 11, 2018 to meet its PY 2016 ESG expenditure requirements.

HOPWA

The City distributes its HOPWA allocation to the Gregory House Programs and Life Foundation who provide tenant-based rental assistance, short-term rent mortgage and utility payments, and supportive services to individuals with HIV/AIDS. During the program year, the City expended \$451,200.71 HOPWA funds. The City met or surpassed its Consolidated Plan goal for PY 2016 to provide housing specific supportive services to persons with HIV/AIDS to secure and maintain their housing.

The City failed to expend \$7,257.99 in HOPWA PY 2014 funds. Although the deadline has passed, HUD allowed the grant to be extended to April 30, 2018 to spend the remaining grant balance of \$7,257.99. The original performance end date (deadline date) for this grant was July 31, 2017.

The City's support has ensured that the persons with HIV/AIDS in Oahu have greater access to affordable housing and special needs services. HUD encourages the City to continue its support of its HIV/AIDS providers.

Continuum of Care

During PY 2016, the City was the member agency for the Honolulu Continuum of Care (CoC). The Honolulu CoC application was awarded \$9,372,980 in CoC funding for thirteen permanent housing projects, one transitional housing project, and one CoC planning project. The City is a participant in the Hawaii Interagency Council on Homelessness, whose goal is to develop a plan to more comprehensively integrate a system of housing and services to assist

individuals who are chronically homeless. The City works in partnership with Partners In Care to develop, enhance and implement a Continuum of Care strategy for the homeless. HUD wishes the City and its partners continued success in implementing actions to end homelessness.

Community Empowerment

As part of its Consolidated Plan, the City developed a Citizen Participation Plan. The Plan is intended to develop ways to involve the public in the development of the Consolidated Plan/Action Plan. Opportunities were provided for citizen participation in the development of the Plan and performance report. The City reported that no oral or written comments were received. HUD encourages the City to continue its efforts to foster public participation and encourages the City to explore additional opportunities to involve the public in its planning process.

Management of Funds

On May 2, 2017, the City had a balance in the Line of Credit Control System, CDBG program income and revolving loan funds that was 2.59 times its annual CDBG grant. HUD determined that, for PY 2016, the City failed the timeliness test and was in noncompliance with the CDBG timeliness regulations. HUD is currently assessing the City's noncompliance with CDBG timely expenditure requirements for failing to achieve the CDBG 1.50 timeliness standard for two consecutive years and has not rendered a decision regarding loss of PY 2017 CDBG funding and other sanctions. Should the City fail to meet the 1.50 timeliness standard when the test is next conducted on May 2, 2018, the City may have its PY 2018 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant.

The City has failed to fully meet its 2012 HOME Program Expenditure requirement. The City was required to expend a cumulative total of \$2,367,981.11 by its program year deadline July 31, 2017. As a result of failing to meet the expenditure requirement, HUD deobligated the 2012 expenditure shortfall amount of \$2,367,981.11.

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Should the City fail to meet the timeliness standards on each of the CPD funds, the City may have its grants reduced.

Areas for Improvement and Recommendations

To improve CPD program compliance, the City needs to ensure timely expenditure of grant funds, through:

- Strengthening the City's CPD (CDBG, HOME, HOPWA, ESG, etc.) programs grants management structure with clearly defined lines of authority and responsibility.
- Implement citywide written policies and procedures that govern the CPD programs and ensure compliance with CPD requirements.
- Building timeliness into the process of determining which projects to fund.
- Avoiding prematurely funding projects not ready to move forward quickly.
- Assisting subrecipients stage projects properly so large amounts of CDBG funds do not sit idle.
- Acting to speed up the completion of existing projects and to obligate the funds faster by modifying or terminating projects.
- Completing environmental assessments and requests for environmental release of funds in accordance with 24 CFR Part 58.
- Strengthening the City's ongoing management of CDBG open activities and completed activities still within the CDBG eligible use period.
- Identifying project obstacles and developing plans to address these obstacles to strengthen its programs.

Fair Housing & Equal Opportunity

HUD encourages the City to continue its activities that address the impediments identified in the City's Analysis of Impediments (AI) document. The CAPER was forwarded to Mr. Jelani Madaraka, Lead Equal Opportunity Specialist, HUD Honolulu Field Office, to review for compliance with Fair Housing and Equal Opportunity requirements. He will forward any comments or questions he may have separately.

Conclusion

Overall, the City is a high-risk grantee that needs to improve program compliance. While HUD has concerns about the City's CPD programs, HUD notes that the City has assisted low- to moderate-income communities and individuals. HUD encourages the City to continue its support of various housing and community development programs. In closing, HUD would like to recognize the City's staff for their hard work and dedication to the CPD programs despite decisions and program management issues that are beyond their control.

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KIRK CALDWELL
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DEPUTY MANAGING DIRECTOR

December 15, 2017

Mr. Mark A. Chandler, Director
Office of Community Planning
and Development
U.S. Department of Housing
and Urban Development
Honolulu Field Office – Region IX
1132 Bishop Street, Suite 1400
Honolulu, Hawaii 96813-4918

Dear Mr. Chandler:

SUBJECT: Annual Community Assessment (ACA) Report
Program Year 2016

Thank you for your letter of November 28, 2017, which transmitted the Annual Community Assessment (ACA) Report to the City and County of Honolulu (City). The City is committed to achieving timeliness as well as the resolution of issues identified in the ACA Report. This letter provides additional information and/or clarification on the following areas.

Community Development Block Grant (CDBG)

1. The ACA Report states that the "City has now reprogrammed most if not all the funds from this (Wahiawa) CBDO."

The City would like to clarify that as of the date of the letter from HUD, no decision had been made regarding reprogramming. A subsequent decision was made to reprogram funds from the Wahiawa Community Based Development Organization (CBDO).

2. The ACA Report states that the "City needs to complete the following at risk activities and bring them into national objective compliance: Kuwili Street Homeless Center, Gregory Housing Programs Housing and Supportive Services for Persons with HIV/AIDS, and Windward Spouse Abuse Shelter."

The City would like to clarify that, prior to the date of the ACA Report, the U.S. Department of Housing and Urban Development (HUD) Honolulu Field Office accepted the City's Remediation Plan for the Kuwili Street Homeless Center project. The City is also in the process of completing the other two (2) activities.

3. The ACA Report states that the "City needs to repay the CDBG program with non-federal funds for the failed acquisition of Kamoku Apartments and Vancouver Apartments."

The City would like to clarify that we determined that it would not be in the best interest of the City or the CDBG program to proceed with the proposed acquisition projects. As you confirmed during our phone call on December 5, 2017, the transfer of CDBG funds from escrow back to the City and recorded in HUD's Integrated Disbursement and Information System (IDIS) satisfies the Kamoku Apartments and Vancouver Apartments requirements and the City does not need to repay the CDBG program with non-federal funds. Thank you for this clarification – we will proceed accordingly.

4. The ACA Report states that the "City needs to complete the following CDBG at risk activities and bring them into national objective compliance immediately or repay the CDBG program with non-federal funds: Kahuku Village Conversion, Kulana Malama, and Family Promise of Hawaii - Support Services.

The City is in the process of completing these activities.

HOME Investment Partnerships (HOME)

1. The ACA Report states that the "City has a CHDO reservation shortfall of \$345,347, which the City needs to commit before October 31, 2018, or HUD will deobligate these funds."

The City recognizes it has a Community Housing Development Organization (CHDO) shortfall; however, we are pleased to inform you that we have recently certified the Honolulu Habitat for Humanity as a CHDO and intend to contract with them well in advance of the October 31, 2018, deadline.

2. The ACA Report states that the "City has one HOME funded activity that is slow moving: Hui Kauhale Ewa Villages Area H. The project is complete, all housing units are occupied, and the nonprofit developer has submitted its final payment request to the City. However, internal disputes between the City Departments of Community Services (DCS) and Budget and Fiscal Services (BFS) regarding administration of this project have delayed the City's actions to close the project.

As a result, if the City cannot resolve its internal disputes and closeout the project. The City may have to repay \$2,775,000 to the HOME program with nonfederal funds."

The City confirms that the Hui Kauhale Ewa Villages Area H project is complete; however, we are not aware of any "internal disputes between DCS and BFS regarding administration of this project." The City is in the process of closing out the activity.

3. The ACA Report states that "HUD also identified one HOME activity funded with PY 2015 funds that does not have an executed written agreement, the Housing First Rental Assistance program."

The City would like to clarify that, prior to the date of the ACA Report, the City canceled the activity in IDIS and included the funds in its Program Year 2017 (City Fiscal Year 2018) Action Plan. This cancellation occurred on October 3, 2017.

To reiterate, the City has changed its business model with respect to our HUD related grants, and requests the assistance of your office to make us successful. If you have any questions or need additional information regarding this matter, please call me at 768-6634.

Warm regards,



Roy K. Amemiya, Jr.
Managing Director

cc: Department of Budget and Fiscal Services
Department of Community Services